MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2019/ 2020

PEM0034 – ESSENTIALS OF MACROECONOMICS

(Foundation in Management)

14 OCTOBER 2019
2.30 p.m. - 4.30 p.m.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **NINE (9) pages** excluding cover page with Section A and Section B.
   Section A: 40 multiple choice questions [40 marks]
   Section B: 3 structured questions [60 marks]

2. Answer **ALL** questions in **Sections A & B.**

3. Answer **Section A** in the multiple-choice answer sheet and **Section B** in the answer booklet provided.

4. Marks allocations are shown at the end of each question.

SECTION A: MULTIPLE CHOICE QUESTIONS (40 MARKS)

Instruction: Answer all questions in the multiple choice answer sheet.

1. Gross domestic product (GDP) is defined as _____.
   A. the market value of all final goods and services produced within a country in a given period of time
   B. the market value of all tangible goods produced within a country in a given period of time
   C. the quantity of all final goods and services supplied within a country in a given period of time
   D. the quantity of all final goods and services demanded within a country in a given period of time

2. Which of the following is **NOT** included in the GDP?
   A. Unpaid cleaning and maintenance of houses.
   B. Services such as those provided by lawyers and hair stylists.
   C. The estimated rental value of owner-occupied housing.
   D. Production of foreign citizens living in Malaysia.

3. Assume that a manufacturer of stereo speakers purchases RM40 worth of components for each speaker. The completed speaker sells for RM70. The value added by the manufacturer for each speaker is _____.
   A. RM110
   B. RM30
   C. RM40
   D. RM70

4. The best reason economists take only final goods and services into account when calculating GDP is that _____.
   A. this is the way things have always been done
   B. they want to avoid the problem of final counting
   C. they want to avoid the problem of double counting
   D. this is the only way things can be done

5. Under what condition will Malaysian GDP be greater than its GNP?
   A. When the value of what non-citizens produce in Malaysia is less than what Malaysians produce in foreign countries.
   B. When more non-citizens live in Malaysia than Malaysians live in foreign countries.
   C. When the percentage of the non-citizens in Malaysia is greater than the percentage of Malaysians in foreign countries.
   D. When the value of what non-citizens produce in Malaysia is greater than what Malaysians produce in foreign countries.

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6. The term "real GDP" refers to _____.
   A. GDP data that have been adjusted for environmental pollution and changes in the distribution of income
   B. GDP data that embody no changes in either the price level or physical output
   C. GDP data that reflect changes in both physical output and the price level
   D. GDP data that have been adjusted for changes in the price level

7. An appreciation of the Ringgit Malaysia (RM) tends to _____ Malaysian net exports and shifts the Malaysian AD curve to the _____.
   A. raise; right
   B. raise; left
   C. lower; right
   D. lower; left

8. If the equilibrium level of income is below the full employment level, then the economy is _____.
   A. producing more Real GDP than it does at full employment.
   B. in an inflationary gap.
   C. in a deflationary gap.
   D. A and B.

9. If income rises from RM900 to RM1000 and autonomous consumption rises from RM500 to RM560, the marginal propensity to consume is _____ percent.
   A. 80
   B. 60
   C. 40
   D. 90

10. A balanced budget occurs when _____.
    A. the national debt is reduced to zero Ringgit Malaysia
    B. a budget deficit during one year is matched by a budget surplus in the next year.
    C. transfer payments equal tax receipts
    D. government expenditures equal tax revenues

11. Imagine that businesses in general believe that the economy is likely to head into recession and so they reduce capital purchases. Their reaction would initially shift _____.
    A. aggregate demand right
    B. aggregate demand left
    C. aggregate supply right
    D. aggregate supply left

Continued...

12. Consumption and disposable income are _____.
    A. indirectly related
    B. directly related
    C. not related
    D. sometimes directly and sometimes indirectly, depending on whether consumption is planned or unplanned

13. The "yardstick" people use to post prices and record debts is called _____.
    A. a medium of exchange
    B. a unit of account
    C. a store of value
    D. liquidity

14. Fiat money _____.
    A. has no intrinsic value
    B. is backed by gold
    C. has intrinsic value equal to its value in exchange
    D. is any close substitute for currency such as checkable deposits

15. Which of the following is **NOT** included in M1?
    A. Currency.
    B. Checkable deposits.
    C. Savings deposits.
    D. Travelers' checks.

16. Suppose a bank has a 10 percent reserve requirement, RM5,000 in deposits, and has loaned out all it can given the reserve requirement.
    A. It has RM50 in reserves and RM4,950 in loans.
    B. It has RM500 in reserves and RM4,500 in loans.
    C. It has RM555 in reserves and RM4,445 in loans.
    D. None of the above is correct.

17. Based on the equation of exchange, if P = 2, Y = 6,000, and M= 3,000, then V = _____.
    A. 1/2
    B. 1
    C. 4
    D. None of the above is correct.

18. The transaction demand for money will shift to the _____.
    A. right when interest rate increases
    B. left when the interest rate decreases
    C. right when aggregate income increases
    D. right when aggregate income decreases

Continued...

19. The term inflation is used to describe a situation in which _____.
    A. the overall level of prices in the economy is increasing
    B. incomes in the economy are increasing
    C. stock-market prices are rising
    D. the economy is growing rapidly

Table 1

Year	Price of beef	Price of corn
2015	RM20	RM12
2016	RM25	RM18

20. Refer to ***Table 1***. Suppose the basket of goods in the CPI consisted of 3 units of beef and 4 units of corn. What is the consumer price index for 2016 if the base year is 2015?
    A. 73.47.
    B. 109.22.
    C. 136.11.
    D. 150.00.

21. Refer to ***Table 1***. Suppose the basket of goods in the CPI consisted of 3 units of beef and 4 units of corn. What is the inflation rate for 2016 if the base year is 2015?
    A. 21.33 percent.
    B. 25.00 percent.
    C. 28.89 percent.
    D. 36.11 percent.

22. The cost of changing price tags and price listings is known as _____.
    A. inflation-induced tax distortions
    B. relative-price variability costs
    C. shoeleather costs
    D. menu costs

23. High and unexpected inflation has a greater cost _____.
    A. for those who save than those who borrow
    B. for those who hold a little money than for those who hold a lot of money
    C. for those whose wages increase by as much as inflation, than those who are paid a fixed nominal wage
    D. for savers in low income tax brackets than for savers in high income tax brackets

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24. Demand-pull inflation _____.
    A. occurs when prices of resources rise, pushing up costs and the price level
    B. occurs when total spending exceeds the economy's ability to produce output at the existing price level
    C. occurs only when the economy has reached its absolute production capacity
    D. is also called cost-push inflation

25. The natural rate of unemployment is the _____.
    A. unemployment rate that would prevail with zero inflation
    B. rate associated with the highest possible level of GDP
    C. difference between the long-run and short-run unemployment rates
    D. amount of unemployment when output and employment are at the full employment level

26. Who of the following would be counted as unemployed according to official statistics?
    A. Mary, who is waiting for her new job to start.
    B. Nora, who worked only 35 hours last week.
    C. Shasta, who neither has a job nor is looking for one.
    D. None of the above would be counted as unemployed.

27. Who would be included in the labour force?
    A. Dalila, an unpaid homemaker not looking for other work.
    B. Brad Goh, a full-time student not looking for work.
    C. Maggie Tan, who does not have a job, is looking for work.
    D. None of the above is included in the labor force.

28. The natural unemployment rate includes _____.
    A. both frictional and structural unemployment
    B. neither frictional nor structural unemployment
    C. structural, but not frictional unemployment
    D. frictional, but not structural unemployment

29. If the unemployment rate is 9 percent and the natural rate of unemployment is 5 percent, then the _____.
    A. frictional unemployment rate is 5 percent
    B. cyclical unemployment rate and the frictional unemployment rate together are 5 percent
    C. cyclical unemployment rate is 4 percent
    D. natural rate of unemployment will eventually increase

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30. If the short-run Phillips curve were stable, which of the following would be unusual?
    A. An increase in government spending and a fall in unemployment.
    B. An increase in inflation and a decrease in output.
    C. A decrease in the inflation rate and a rise in the unemployment rate.
    D. A decrease in the money supply and a rise in unemployment.

31. China has a comparative advantage in the production of silk, but Russia has an absolute advantage in the production of silk. If these two countries decide to trade, _____.
    A. China should export silk to Russia
    B. Russia should export silk to China
    C. trading silk would provide no net advantage to either country
    D. Without additional information about opportunity costs, this question cannot be answered.

32. Assume, for Australia, that the domestic price of beef without international trade is lower than the world price of beef. This suggests that, in the production of beef, _____.
    A. Australia has a comparative advantage over other countries and Australia will export beef
    B. Australia has a comparative advantage over other countries and Australia will import beef
    C. other countries have a comparative advantage over Australia and Australia will export beef
    D. other countries have a comparative advantage over Australia and Australia will import beef

33. When a country allows trade and becomes an importer of a good, _____.
    A. domestic producers lose and domestic consumers gain
    B. domestic producers gain and domestic consumers lose
    C. domestic producers and domestic consumers both gain
    D. domestic producers and domestic consumers both lose

34. If a country allows trade and, for a certain good, the domestic price without trade is higher than the world price, _____.
    A. the country will be an exporter of the good
    B. the country will be an importer of the good
    C. the country will be neither an exporter nor an importer of the good
    D. Additional information is needed about demand to determine whether the country will be an exporter of the good, an importer of the good, or neither.

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35. Country Z limits other country's exports to Country Z to 100,000 bottles of wine annually. This is an example of a(n) _____.
    A. protective tariff
    B. export subsidy
    C. import quota
    D. voluntary export restriction

36. The current account in a nation's balance of payments includes _____.
    A. its goods exports and imports, and its services exports and imports
    B. changes in its official reserves
    C. purchases of foreign assets, and foreign purchases of assets
    D. All of the above.

37. If a nation has a current account surplus and its official reserves account balance is zero, it must have a _____.
    A. surplus in its capital account
    B. balance of payments deficit
    C. balance of payments surplus
    D. deficit in its capital account

38. If the exchange rate between the U.S. dollar and the Japanese yen is $1 = 200 yen, then the dollar price of yen is _____.
    A. $0.005
    B. $0.05
    C. $0.50
    D. $5

39. If in a system of fixed exchange rates the dollar price of RM is above the market equilibrium level, _____.
    A. gold will flow from the United States to Malaysia
    B. there will be a surplus of RM
    C. the United States government will have to ration RM to U.S. importers
    D. there will be a shortage of RM

40. Purchasing-power parity implies that the nominal exchange rate given as foreign currency per Ringgit Malaysia must rise if the price levels in _____.
    A. foreign countries rise
    B. Malaysia rises
    C. both countries rise
    D. both countries fall

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SECTION B: STRUCTURED QUESTIONS [60 MARKS]

Instructions: Answer **ALL** questions in this section. Write your answers in the answer booklet provided.

Question 1

a) Describe the **FOUR (4)** components of Gross Domestic Product (GDP) based on the expenditure method. (8 marks)

b) Discuss how a central bank can use the **THREE (3)** monetary tools to control the money supply in the economy. (12 marks)

[Total: 20 marks]

Question 2

a) Explain any **FOUR (4)** ways of direct control which can be applied by the government to curb the inflation. (12 marks)

b) Discuss any **TWO (2)** types of unemployment with examples. (8 marks)

[Total: 20 marks]

Question 3

a) Differentiate between absolute advantage and comparative advantage concepts. (4 marks)

b) Discuss any **TWO (2)** reasons why international trade could be beneficial to Malaysian economy. (4 marks)

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c) In ***Table 2*** below, state what will happen to the supply of Ringgit Malaysia (RM), the demand for RM, and the equilibrium exchange rates of RM in each of the following cases. [Note: Candidates are required to reproduce the ***Table 2*** in the answer booklet]

Table 2

No.	Cases	Supply of RM (Increase or Decrease or Same)	Demand for RM (Increase or Decrease or Same)	Equilibrium Exchange Rate of RM (Increase or Decrease or Same)
(i)	**Malaysians buy more the U.S. goods.**			
(ii)	**Singaporeans invest in Malaysian stock market.**			
(iii)	**Malaysian companies buy Japanese government bonds.**			
(iv)	**China tourists flock to Malaysia**			

(12 marks)
[Total: 20 marks]

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